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Ensuring Adequate Resources to Meet the MDGs

In 2005, the need for a dramatic global scale-up in official development assistance (ODA) is receiving rare public and political attention. Several high-level initiatives have recently put forward bold and practical policy recommendations for ODA, each stressing major increases as essential for both development and international peace and security. These recommendations have helped contribute to a frank global dialogue about the current state of international development assistance and the needs of the world's poorest people, a dialogue given extra impetus in light of the tragedies of the December 2004 Asian tsunami and the 2005 major review of progress since the Millennium Declaration.

This short paper proceeds in four sections. The first outlines the major recent recommendations for ODA scale-up to achieve the Millennium Development Goals (MDGs). The second describes the links between these recommendations and the landmark framework for development cooperation established in the 2002 Monterrey Consensus. In light of the urgent need for incremental ODA commitments, the third section identifies policy and operational priorities for 2005. The final section describes the crucial role of the UN system in supporting ODA scale-up for the MDGs.

1. Major Recommendations for Official Development Assistance

The Secretary-General's High Level Panel on Threats, Challenges and Change was the first in the recent series of initiatives to give prominence to the need for major increases in ODA. Stressing the inextricable link between development and security, the Panel asserted the centrality of achieving the MDGs, particularly through the implementation of MDG-based national development strategies in the poorest countries. The Panel recognized the need for greatly increased ODA to support those strategies, and therefore called for developed countries that have not already done so to achieve the long-standing target of 0.7 percent of gross national income (GNI) in ODA as an essential contribution to global peace and stability. Further emphasizing the centrality of ODA in the pursuit of collective security, the Panel recommended that a clear commitment to the 0.7 percent target be considered as an important criterion for evaluating developed countries aspiring to permanent membership on the Security Council.

The second initiative was the UN Millennium Project, the Secretary-General's independent advisory body mandated with recommending an action plan to achieve the MDGs, which presented its final recommendations in January 2005. These include a detailed, needs-based approach to assessing the practical investments and policies required to achieve the MDGs, emphasizing that the international community should

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provide adequate finance and help support the development capacity for service delivery through specific investments in human resources, infrastructure and systems. The UN Millennium Project also outlined how improved trade access is critical for supporting the achievement of the MDGs, but that it is a complement rather than a substitute to ODA. Assuming that developing countries themselves make tremendous strides to mobilize more domestic resources for poverty reduction over the coming decade, the UN Millennium Project found that, for the MDGs alone, ODA flows need to double in 2006 to \$135 billion annually and continue to increase to \$195 billion annually by 2015 (in constant 2003 dollars). The majority of these resources will need to be directed to low-income countries, although many middle-income countries will also require assistance in direct ODA and through debt relief. To meet the MDGs and other key development priorities, ODA will need to increase to 0.7 percent of developed countries' GNI by 2015. Current commitments to scale up ODA by \$30 billion annually by 2010 still fall \$50 billion short of the levels required to meet the MDGs alone. The UN Millennium Project therefore highlighted the urgency for developed countries to establish timetables to meet the agreed ODA target of 0.7 percent of GNI.

Last month, two more reports have reinforced the call for increased development finance. The Commission for Africa, chaired by United Kingdom Prime Minister Tony Blair, outlined the need for an immediate ODA scale-up of \$25 billion per year to Africa alone over the coming five years, followed by the scale-up of an additional \$25 billion annually over the subsequent five years. This scale of need is highly consistent with the recommendations of the UN Millennium Project.² To help finance the needed scale-up of ODA, the Commission for Africa also recommended the launch of an International Finance Facility to support an immediate \$50 billion per year increase over current ODA levels.

Perhaps most importantly, two weeks ago the UN Secretary-General presented *In Larger Freedom*, setting forth his recommendations for the actions needed to implement the vision of the Millennium Declaration with the support of a strengthened United Nations system. The report reasserts firmly the deep links between development and security. The Secretary-General's recommendations on development policy and development assistance are bold and far-reaching, calling for major actions to translate the MDGs from aspirational to operational. First and foremost, he calls for every developing country with extreme poverty to prepare and begin to implement, by no later than 2006, national poverty reduction strategies that are ambitious enough to achieve the MDGs. These strategies should be anchored in 10-year horizons and a needs-based approach to meeting each country's unique needs for human capital, infrastructure, environmental management, and private sector development. Second, his report calls for countries that produce those strategies to be provided with MDG-consistent international support, including adequate, predictable, and well-structured ODA. On a related note, the Secretary-General also calls for a major increase in debt relief in order to ensure that MDG-based development assistance is no longer cancelled out by debt service payments back to donors.

² Although the Millennium Project did not publish regional ODA needs in its final reports, the Project's underlying analysis can be evaluated on a region-by-region basis, which shows ODA needs highly consistent with those estimated by the Commission for Africa.

To ensure developing countries are not impeded from achieving the MDGs due to a lack of resources, *In Larger Freedom* builds on the recommendations of the UN Millennium Project and the Commission for Africa by calling for all developed countries that have not already done so to reach the 0.7 percent ODA target by 2015, to meet an interim 0.5 target by no later than 2009, starting with significant increases no later than 2006. The report also focuses on the need for immediate availability of large-scale finance and rapid improvements in the quality of aid delivery. For the former, he calls for the launching of a full scale International Finance Facility in 2005. For the latter, he calls for donor countries to agree, in advance of this September's high-level summit, on practical and measurable targets for linking support to countries' MDG-based Poverty Reduction Strategies (PRSs). Furthermore, the Secretary-General supported the use of the 0.7 ODA target as a criterion for evaluating developed countries that are aspiring to permanent membership on the Security Council.

2. ODA scale-up in the framework of the Monterrey Consensus

The major reports described above have helped to focus the world's attention on the major and rapid increase in ODA that is required in order to achieve the MDGs and to support international peace and stability for the coming generation. They build on the landmark framework established at the Monterrey conference on Financing for Development in March 2002, where developing and developed countries affirmed their framework for partnership, anchored in joint commitments to good governance for poverty reduction and to scaled-up assistance for developing countries that pursue such governance. This includes the important commitment in paragraph 42 that urges "all developed countries that have not done so to make concrete efforts toward the target of 0.7 percent of gross national product as ODA to developing countries."

Although increased development assistance has been widely recognized as necessary for achieving the MDGs, it is certainly not sufficient for doing so. Countries wanting to reach the MDGs require sound national scale-up strategies backed by adequate resources and implemented through good governance practices. The latter includes a government's commitment to development and the ability to implement effectively a major scale-up of public investments and services. In addition, good governance means upholding the rule of law through administrative and civil services and through legal and judicial institutions. It includes promoting human rights, particularly civil liberties and political freedom. It also includes sound economic choices, especially for macroeconomic policies and regulatory frameworks. And it surely includes transparent, participatory, and accountable decision-making processes underpinning a clear commitment to fight corruption. These critical elements of governance serve as vital complements to the scaling-up of public sector management capacity.

Although the idea of "poor governance" is often still used as a euphemism for corruption, recent advances in research and measurement have helped to outline the many components of governance. The result is the ability to measure the variation in governance indicators across and within countries. Some countries have high scores on an

absolute scale while others, led by political reformers, score poorly not because of their leaders' actions, but because of entrenched corruption, possibly as a legacy of past regimes. Still other countries are governed by corrupt rulers, while others fall into violent conflict, making good governance difficult, if not impossible. The data also show that almost every dimension of governance is highly correlated with income. This correlation signifies a two-way relationship: good governance helps achieve higher income, and higher income supports better governance.

It is broadly accepted that better governance can lead to higher economic growth as a result of more efficient divisions of labor, more productive investments, lower transaction costs, and faster implementation of social and economic policies. But it is not often properly understood that poorer countries with low levels of human capital are less able to ensure good governance, since this requires a well functioning and adequately paid civil service, police force, and judiciary; proper information technology (for registration of property or transparency in procurement); equipment and training for a reliable police force; and many other outlays for proper public administration. Moreover, richer countries generally have more literate societies, with civil society organizations and nongovernmental organizations, including the media, better able to act as watchdogs of public sector activities. Higher incomes also promote political participation and constraints on executive authority. The eminent economist Robert Barro, for example, has presented evidence to suggest that economic growth supports the development of democratic political institutions.

Plenty of evidence shows that human capital is a fundamental predictor of economic growth and that rising human capital in turn seems to contribute to improved institutions. This is important in the context of the negotiations leading up to the September summit since it suggests that external factors contributing to low human capital, such as endemic disease (e.g. malaria) that leads to high child morbidity and mortality, can have an important adverse effect on the development of government institutions. It also corroborates research by Xavier Sala-i-Martin and colleagues, who find that human capital and geography variables were among the main predictors of economic growth in the late twentieth century.

The upshot is that while good governance can contribute to economic growth and bad economic governance can certainly impede growth, governance itself can be improved by investing in other factors (such as education and health) that support overall economic growth and human capital accumulation. This two-way causation is hugely important from the vantage point of the Millennium Development Goals. It underscores the importance of a broad-based strategy to meet the Goals, directly through good governance practices and indirectly through investments in human capital, public sector management, and infrastructure. It also underscores the point that on average a poor country is likely to have lower governance scores than a richer one, even if both governments have equally benevolent and committed political leadership. A proper assessment of a country's governance therefore requires not an absolute scale of measurement, but a measurement in relation to other countries in a similar income group. Many government leaders in poor countries with weak governance systems are making heroic efforts at improvement, and those efforts need to be recognized and supported.

3. Next Steps for Development Assistance

While a broad understanding of the links between development, governance and ODA provides important guidance for the programming of resources for the MDGs, it should not distract from a more fundamental point for development assistance. Nearly five years after the establishment of the MDGs, the much discussed relationship between governance and ODA for the MDGs remains divorced from the ground-level reality that even the *best* governed low-income countries are not receiving the ODA required to implement an MDG-based national strategy. Countries like Ghana and Tanzania, for example, are broadly recognized to have stable and transparent democratic processes and an ability to absorb much more ODA very quickly, yet even they do not receive anywhere near the level of ODA required to achieve the MDGs. More broadly, no Poverty Reduction Strategy Paper is so far anchored in a 10-year scale-up plan to achieve the MDGs, backed by donor commitments to sufficient and predictable ODA over the period. In short, the international development system has not yet entrenched its MDG efforts in a practical model of success, so it is crucial that the first MDG-based national development strategies be adopted and implemented as quickly as possible in order to align broader development practice with the MDGs.

Moreover, without clear donor commitments to support national strategies bold enough to achieve the MDGs, there is little incentive and scope for a country, particularly a low-income country with major human resource constraints, to make the major national efforts required to draw up a 10-year framework for scaling up to achieve the MDGs. Many government leaders in developing countries are indeed frustrated by developed countries' repeated failures to follow-through on development assistance pledges so they are hesitant to expose themselves to the political risk inherent in preparing an MDG-based strategy that sets their country up for disappointment again if the needed resources are not forthcoming. Nonetheless, in collaboration with the UN Millennium Project, several courageous and committed governments – including those in the Dominican Republic, Ethiopia, Kenya, Senegal, Tajikistan, and Yemen – have begun to prepare their own MDG-based poverty reduction strategies over the past year and are planning to present them to their development partners over the coming months.

Therefore, the oft-suggested “chicken and egg” dilemma between donors and developing countries, whereby resources would be readily available if only more developing countries could demonstrate better governance, does not reflect the current reality. If the MDGs are to be achieved, the most fundamental constraint right now is financial, since donor governments have not yet even committed to making adequate resources *available* for the MDGs, even for the best case countries. Credible commitments need to be made for sufficient and reliable ODA volumes. Then, once the resources are committed, actual disbursements should be guided by appropriately rigorous standards of accountability and transparency.

If the MDGs are to be achieved, two high-level policy priorities for ODA must be addressed well in advance of the September 2005 summit.

Adequate ODA volumes need to be made available. Timetables for reaching the 0.7 percent target are paramount, both since the target must be met if the MDGs are to be achieved, and because the 0.7 standard is perhaps the single greatest signal of developed countries' willingness to meet their own commitments to support development. That the MDGs are now affordable within the 0.7 target only adds to the urgency with which this target must be pursued. So far Denmark, Luxembourg, Netherlands, Norway, and Sweden have met the 0.7 target while Belgium, Finland, France, Ireland, Spain, and the United Kingdom have all set timetables for reaching 0.7 by 2015 (see Table 1). Encouragingly, the German Minister of Economic Cooperation and Development has recently called on her government to reach 0.5 percent by 2009 and 0.7 percent by 2014, and there are high level signs that such a commitment is forthcoming. Given the short-term budgetary constraints in many developed countries, a separate mechanism is therefore required to mobilize the incremental \$50 billion needed in 2006, even if all existing ODA commitments are realized next year. A full-fledged International Finance Facility needs to be launched, as proposed by the United Kingdom, backed up by member countries' timetables for reaching the 0.7 target.

Table 1: Official Development Assistance among members of the OECD Development Assistance Committee in 2003 and commitments to the 0.7 target

Country	ODA as share of GNI in 2003 (%)	ODA in \$US (billions)	Target year for achieving 0.7
Australia	0.25	1.2	No confirmed timetable
Austria	0.20	0.5	No confirmed timetable
Belgium	0.60	1.9	2010
Canada	0.24	2.0	No confirmed timetable
Denmark	0.84	1.7	Already achieved
Finland	0.35	.6	2010
France	0.41	7.3	2012
Germany	0.28	6.8	No confirmed timetable
Greece	0.21	.4	No confirmed timetable
Ireland	0.39	.5	2007
Italy	0.17	2.4	No confirmed timetable
Japan	0.20	8.8	No confirmed timetable
Luxembourg	0.81	.2	Already achieved
Netherlands	0.80	4.0	Already achieved
New Zealand	0.23	.2	No confirmed timetable
Norway	0.92	2.0	Already achieved
Portugal	0.22	.3	No confirmed timetable
Spain	0.23	2.0	2012
Sweden	0.79	2.4	Already achieved
Switzerland	0.39	1.3	No confirmed timetable
United Kingdom	0.34	6.3	2013
United States	0.15	16.3	No confirmed timetable

Total ODA		69.0	
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Source: OECD Development Assistance Committee

Scaled-up ODA flows need to be programmed to support on-the-ground investments through developing countries' MDG-based national strategies.

Current ODA is generally not aligned with the priorities of developing countries, particularly low-income countries. The UN Millennium Project found that barely a fifth of bilateral development assistance and less than half of multilateral assistance finances direct investments for the MDGs. In scaling-up ODA for the MDGs, resources need to focus on supporting such direct investments, including thorough integrated community-based scale-up programs and support for human resource development and systems building. The recent Paris High-Level Forum on donor harmonization failed to reach an agreement on targets for donors to streamline their own development practices and to align them with the MDGs. However, the extension of their negotiation deadline to September 2005 still provides a window for donor countries to agree to support MDG-based national development strategies, anchored in 2015 commitment horizons, streamlined donor practices, and prioritization for budget support.

In addition to these highest-level priorities, two operational priorities are also essential for the first half of 2005. The clock is ticking as we approach the 2015 deadline, and the poorest countries certainly cannot wait for all international political negotiations to be resolved if they are to achieve the MDGs. Nor need they wait, since practical steps are at hand for immediate implementation in 2005.

Fast-track support to developing countries as soon as they are ready. Starting immediately, any country that puts forward a sound MDG-based poverty reduction strategy should be “fast-tracked” with commitments for adequate donor support. The first of such strategies could be presented as early as May 2005. These cases will be crucial for establishing a reference point for success. Fast-tracking should not be understood to imply a focus only on short-term priorities. Instead it implies initiating the 10-year scale-up process as soon as possible. Nor should fast-tracking imply an exclusive process in which countries receive support based on political or other arbitrary criteria. On the contrary, the only standards for fast-tracking should be: has the country prepared a sound MDG-based strategy that identifies an MDG financing gap, and can the country use ODA resources effectively to fill that gap.

Launch some high impact “Quick Wins” as soon as possible. It is possible for developing countries to start implementing some elements of a national MDG strategy immediately and to see breathtaking results within three or fewer years. Although far from comprehensive, some Quick Wins could be jointly launched by developing and developed countries to bring vital gains in well-being to millions of people and start countries on the path to the Goals. With adequate resources, the Quick Wins include, but are not limited to:

- Free mass distribution of long-lasting insecticide treated bednets and effective antimalaria medicines for all children in regions of malaria transmission by early 2008
- Ending user fees for primary schools and essential health services, compensated by increased donor aid as necessary, no later than the end of 2006
- Successful completion of the 3 by 5 campaign to bring 3 million AIDS patients in developing countries onto antiretroviral treatment by the end of 2005.
- Expansion of school meals programs to cover all children in hunger hotspots using locally produced foods by no later than the end of 2006
- A massive replenishment of soil nutrients for smallholder farmers on lands with nutrient-depleted soils, through free or subsidized distribution of chemical fertilizers and agroforestry, by no later than the end of 2006.
- Launching national campaigns to reduce violence against women, by no later than the end of 2006.

The Quick Wins of course need to be embedded in the context of longer term national strategies to achieve the MDGs, but the world cannot afford to let another year go by without investing in these simple and proven strategies. Not only can huge numbers of lives be saved and improved, but the successful implementation of immediate development outcomes backed by targeted donor assistance will also help to build longer term support for ODA in developed countries that have not yet committed to the 0.7 target.

4. Practical Roles for the UN System

In the context of current discussions regarding UN reform, the UN system itself has a crucial role to play in advancing the MDG agenda outlined above. This role can be mapped out through the UN system's respective roles as a forum for intergovernmental processes, as a system of technical organizations, and as a normative body that helps to establish international standards.

Intergovernmental processes. The UN is the forum in which member States will negotiate the outcomes for the September 2005 summit. It is here that delegates will need to remind each other of the existing 0.7 target and the need for timetables to achieve it. Member States can also negotiate specific timetables and targets for donor governments and their partner countries to harmonize their procedures and practices around countries MDG-based national strategies.

Technical operations. On the operational side, the specialized agencies, programs and funds have a core role to play in providing technical support to countries developing and implementing MDG-based poverty reduction strategies. In several areas, UN organizations are the leading international repositories of technical expertise so they will need to organize themselves in such a manner that

they can play the most constructive role possible in fast-tracked processes for national scale-up. Similarly, individual agencies, programs and funds can take leading roles in coordinating the global partnerships required to launch several Quick Wins. The World Food Program, for instance, could help put together the coalition that will manage the Quick Win for locally produced school meals. UNICEF and the World Bank could help to lead the effort to end primary school fees in low-income countries. WHO could work with the Global Fund to Fight AIDS, TB and Malaria and other key partners to ensure full coverage of effective anti-malarial medicines within three years.

Setting standards. The UN system has a further key role to play in standard-setting, both normatively and through reporting. The UN already leads the globally coordinated effort to monitor and report on MDG progress in countries around the world. This includes support for national MDG reports that help to capture ground-level realities capturing within-country variations in progress. Moving forward, and grounded in an expanded technical advisory role around the MDG-based national strategy, UN Country Teams also have a role to play in setting standards across all of the MDGs. It is common, for example, for developing countries to prioritize particular sectors over others, due either to resource constraints or to general policy neglect. For instance, education strategies are often given funding priority over health, when countries feel they cannot afford to do both at scale. Also, many countries have systematically neglected policies for the environment and maternal health, mainly due to oversight. In such instances, the UN voice is crucial for working with national governments to advocate a broad and integrated approach to development, citing the MDGs as the clearly agreed upon reference point for minimum standards of development.